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UNCLAS LIMA 003375

SIPDIS

STATE FOR E, EB A/S WAYNE, WHA A/S NORIEGA, OES A/S TURNER  
ALSO FOR WHA/AND, WHA/EPSC, EB/IFD/ODF, OES/ENV  
TREASURY FOR U/S TAYLOR, K. KOZLOFF, G. SIGNORELLI

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SENSITIVE

E.O. 12958: N/A

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SUBJECT: CAMISEA GREENLIGHT: REPSOL TO EXPORT LNG

REF: LIMA 2236 AND PREVIOUS

1. (U) SUMMARY: Hunt Oil's liquefied natural gas project cleared its last major hurdle to securing financing for its planned Peru plant. On August 1, Spanish firm Repsol agreed to buy the 4 million annual tons of LNG for 18.5 years. Hunt hopes to secure financing and begin construction of the LNG plant by December, with exports to start in 2009. Repsol will probably ship the LNG to its proposed deliquification plant in central Mexico to supply the Mexican and western U.S. markets. END SUMMARY.

2. (U) On August 1, Repsol YPF, the Spanish Oil firm's Peruvian subsidiary, announced with Peru LNG company (70 percent owned by U.S. firm Hunt Oil) an agreement for Repsol to purchase the liquefied natural gas (LNG) for export produced by the Camisea natural gas project (Reftel) in Peru. Hunt's construction of an LNG plant south of Lima would be the second, export phase of the Camisea project. The Peru LNG liquefaction plant to be built south of Peru would export an estimated 4 million tons of LNG every year; the agreement spans 18.5 years from the LNG plant's startup.

3. (SBU) Peru LNG had previously signed an agreement to purchase the Camisea gas as it is piped from the Amazon, but finding a buyer for the LNG product was the last major obstacle to securing financing for the 2.1 billion plant construction. Peru LNG has been exploring financing with the IFC, IDB, CAF and EXIM, as well as local bond issuers. Barbara Bruce, VP of Hunt Oil's Peruvian subsidiary, told Econoff that the Repsol deal would give Peru LNG the needed credibility to close on financing.

4. (U) The deal includes agreement for Repsol to acquire 20 percent of Peru LNG, as well as Hunt's 10 percent of Transportes de Gas de Peru (TGP) and 10 percent of Hunt's stake in the Camisea gas fields. The TGP consortium pipes natural gas from the Camisea fields in the Amazon to consortium PlusPetrol's Paracas Bay terminal; a planned extension of the pipeline would stretch to the LNG plant site.

5. (SBU) Other obstacles to proceeding with construction have mainly been resolved. Environmental permitting is continuing apace. Bruce said that Hunt's plan to break ground by the end of 2005 is aggressive but still possible; LNG exports are still planned to begin in 2009.

6. (SBU) One unresolved issue is the jurisdiction of the plant site for taxing and royalty-sharing purposes. The site lies in a coastal desert straddling the border between the Lima and Ica Departments. The border was never adequately plotted in this area, and the lure of property taxes and a share in royalties led to a dispute between the adjoining provinces in the two departments. The respective regional governments took up the cause, and the boundary determination is now in the hands of the Peruvian Congress. Gustavo Navarro, Camisea point person in the Ministry of Mines and Energy, and Hunt's Bruce told Econoff that it is unclear when Congress will act. (Note: Congressional commissions are being reorganized and no action is likely soon. End Note.)

7. (SBU) While not yet certain to whom Repsol will sell the LNG, Repsol continues to plan for a deliquification plant in central Mexico that would supply the Mexican and West Coast U.S. markets. Carlos Alfonsi Ciafrelli, new president of Repsol YPF, told Econoff that while Repsol's export plans have not been finalized, Repsol's priority is to ship the LNG to Mexico and the U.S.

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